Kannaland Municipality

Budget 2017/2018 to 2019/2020

Medium Term Revenue and Expenditure Framework (MTREF)

30 MAY 2017

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1. PART 1- ANNUAL BUDGET

1.1 Mayoral Speech

The Mayoral Budget speech will be made available on the day of approval of the budget.

1.2 Council Resolutions

The Council of Kannaland Municipality at a meeting that will take place on 30 May 2017 will consider and approve the annual budget. The following draft resolutions are contained in the agenda of the Council meeting:

RECOMMENDATION

That Council takes note of the 2017/18 budget in terms of section 17(2) of the Municipal Finance Management Act, (Act 56 of 2003), as follows**:**

a. that the following policies be noted as to reviewed and approved by no later than 30 May 2017:

1. Customer Care, Credit Control and Debt Collection Policy;
2. Property Rates Policy;
3. Tariff Policy,
4. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
5. Indigent Policy;
6. Virement Policy;
7. Cash Management and Investment Policy;
8. Supply Chain Management Policy;
9. PPPFA Policy;
10. Asset Management Policy;
11. Funding Borrowing & Reserve Policy;
12. Long Term Financial Plan;
13. Liquidity Policy;
14. Budget Implementation and Monitoring Policy.
15. Bad debt write off policy
16. Fleet Management Policy
17. Grants-in-aid Policy
18. Travel and Subsistence Policy
19. Risk Management Policy
20. Capital Contributions for new developments
21. Water losses policy
22. Electricity losses policy
23. Public participation policy

(b) that the annual budget for the financial year 2017/18 and indicative outer years 2018/19 and 2019/20 be noted in terms of section 17(2) of the MFMA as set-out:

(i) Capital expenditure by project as contained in annexure "A" to the agenda;

(ii) Capital funding by source as contained in annexure "A" to the agenda;

(iii) Operating revenue by source as contained in Table 1 of the report;
(iv) Operating expenditure by type as contained in Table 2 of the report;

(c) that property rates as reflected in the report be imposed for the budget year 2017/18;

(d) that tariffs and services charges as reflected in the formal tariff list be approval for the budget year 2017/18;

(e) that the capital funding, both internal and external funding, be secured prior to the commencement of any new capital project;

(f) that the annual budget documentation for 2017/18 – 2019/20 as outlined in the budget regulations be submitted to National and Provincial Treasury.

1.3 Budget 2016/17 Mid-year Review and adjustments budget

The following table shows the original and adjustments budget for 2016/17.

Item	Original Budget 2016/2017 R	MYR Adjusted Budget 2016/2017 R	Difference R
Capital	54 589 850	26 341 085	28 248 765
Operating Income	183 760 820	165 575 231	18 185 589
Operating Expenditure	147 198 050	139 232 383	7 965 667

The 2016/17 adjustments budget was taken into account in the preparation of the 2017/178 MTREF. In particular, the operating budget is a direct result of this adjustment budget due to a very realistic approach being adopted during the adjustment budget process.

1.4 Executive Summary

A dedicated budget task team was established for the preparation of the 2017/18 budget. The budget task team was confronted with numerous challenges during the budget process. The following had an impact:

a) The continued negative effect of the economic downturn, more so now that our national economic health is in a volatile state;
b) The continuously arising service delivery shortcomings and the inability of the municipality to properly fund such;
c) The inability of the municipality to establish a Capital Replacement Reserve in order to provide financial leverage for non-cash items in the budget;
d) Insufficient funding allocation for the rehabilitation and/or replacement of assets that have reached the end of their design life;

e) inadequate maintenance budgets, which could be attributed to the municipality's limited income base;
f) Inadequate inter departmental cooperation with the preparation and implementation of the budget.
g) Failure to implement strategic plans developed for the improvement of the financial health of the municipality.
h) Kannaland's outstanding creditor book due to previous financial challenges which the current budget must provide for;
i) Nersa's directive that bulk purchases will increase by 2.11% for municipalities.

The 2016/17 adjustments budget in February 2017 again proved that the ability of Council to reduce costs is limited due to the fact that the fixed cost component of the operating budget exceeds the variable costs by far. The adjustments budget nonetheless defined the basis for the draft 2017/18 budget.

Council is currently in partnership with The Western Cape Provincial Government to develop a credible revenue enhancement plan.

- The municipality needs to focus on its core functions. During the adjustments budget of 2016/17 the Budget Committee and the Heads of Departments, scrutinised the budget to affect all possible shortcomings

- The need to maximise income through efficiencies and the way we do business was investigated before we decided to increase our rates, service charges and other tariffs;

- A revenue enhancement project was implemented to ensure that all consumers are billed correctly and are contributing to the municipality's income as set out in our tariff policy;

- The municipality adopted a hands-on cash management approach through a newly established cash flow management process.

- No external loans will be sourced to fund capital projects. The capital acquisitions for 2017/2018 will be limited to the availability of capital grants.

- The municipality has implemented a process to ensure that all available National and Provincial Government Grants are accessed in order to service part of our capital program.

- In spite of the abovementioned challenges, the budget task team managed to build the tariffs around the CPI inflation base on the macro economic performance for 2017/2018 to 2019/2020. They have further applied electricity increases to be in line with National Treasury guidelines as issued in the budget circulars.

MFMA Circulars

National Treasury sent out MFMA Circular No. 85 on 9 December 2016 providing guidance to municipalities on their 2017/18 budgets and Medium Term Revenue and Expenditure Framework (MTREF). Circular 79 was followed up by Circular no. 78 dated 7 March 2016. Circular No. 78 & 79 reminds us of the key focus areas for the 2016/17 budget process, and that it must be read together with MFMA Circulars no. 48, 51, 54, 55, 58, 59, 66, 67, 70 and 72. It is essential reading material in order to understand the background to this budget.

National Treasury has also set out the requirements for funding the budget and producing a credible budget.

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Kannaland municipality strongly thrived to achieve the outcomes as outlined by the above legislation however due to inherent financial and other constraints it is not always possible to ensure that budgeted inflows break even with budgeted outflows. Our 2017/2018 proposed budget is however an indication that we are closer to achieving this objective.

Under old budget formats a 'balanced' income generated approach was a key objective and this assisted in ensuring that outflows were matched by inflows, provided revenue collections were realistic. However, GRAP compliant budgets necessitate that budget 'balancing' be much more comprehensive.

New budgeting and accounting formats demand that the budgeted Statement of Financial Performance (Income Statement), the Budgeted Statement of Financial Position (Balance Sheet) and the Budgeted Statement of Cash Flows must be considered simultaneously to ensure effective financial management and sustainability and to ensure that the budget is funded.

A Credible Budget

Amongst other things, a credible budget is a budget that:

- Items budgeted for should be restricted to key performance indicators identified in the IDP for that specific period. Care should be however taken that provision is only made provided sufficient funding is available.
- The budget should be achievable in terms of agreed service delivery and performance targets.
- Contains revenue and expenditure projections that are consistent with current and past performance and supported by documented evidence of future assumptions.

- The financial viability of the municipality should at all times be considered in deciding the inclusion or exclusion of the budget (affordability confirmed prior to inclusion); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

1.5 – Budget Overview of the 2017/18 MTREF

This section provides an overview of the Kannaland Municipality's 2017/18 to 2019/20 MTREF. It includes an assessment of how the budget links with the national and provincial government contexts along with a review of the fiscal position of Kannaland Municipality.

The Municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced in Kannaland. Kannaland alone cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources as well as the achievement of their own policies.

According to Circular No. 85, the following headline inflation forecasts underpin the national 2017/18 Budget:

Fiscal Year	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Forecast		
Headline CPI Inflation	4.6 %	6.4 %	6,1 %	5.9 %	5,8 %

The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies, unless it can be shown that external factors impact otherwise.

The budget process in Kannaland followed the requirements of the MFMA.

A budget task team was established to examine, review and prioritise budget proposals from departments.

For the 2017/2018 period, the Municipality is planning to spend R 30 800 500.00 on capital projects.

These projects will be funded by National and Provincial grants.

The MFMA requires municipalities to set out measurable performance objectives when tabling their budgets. These "key deliverables" link the financial inputs of the budget to service delivery on the ground.

As a further enhancement to this, quarterly service targets and monthly financial targets are contained in the Draft Service Delivery and Budget Implementation Plan (SDBIP). This must be approved by the Mayor within 28 days after the approval of the final budget and forms the basis for the Municipality's in year monitoring.

In view of the aforementioned, the following table is a consolidated overview of the proposed MTREF:

Table 1 – Consolidated Overview of the 2017/18 MTREF

	Budget Year 2017/18 R	Budget Year 2018/19 R	Budget Year 2019/20 R
Total revenue excluding capital transfers and contributions	163 146 260	223 123 560	256 011 835
Less: Total Expenditure	-132 341 313	-139 094 250	-149062 800
Surplus/(Deficit) before capital transfers and contributions	30 804 947	84 029 310	106 949 035
Less: Capital transfers and contributions	30 800 500	83 167 850	106 298 250
Surplus/(Deficit) before appropriations	4 447	861 460	650 785

1.6 – Operating Revenue Framework

For Kannaland Municipality to continue maintaining / improving the quality of services provided to its citizens it needs to generate the required revenue.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines, Circular No. 78, 79 & 85;
- The municipality's Property Rates Policy;
- The municipality's Credit Control and Indigent Policy and rendering of free basic services;
- Tariff policy and structure;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA).
- Revenue enhancement plan.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

Table 2 – Summary of revenue classified by main revenue source

Revenue generated from property rates and service charges forms a significant percentage of the revenue source of the municipality and is not linked to a specific expense but rather to operating and general expenditure. The above table takes into account revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality and also capital transfers and contributions.

The total revenue decreases from R 165 575 231 to R 160 478 000. This amount includes capital as well as operating grants.

The following table provides a breakdown of the various grants allocated to Kannaland Municipality over the medium term:

Table 3 – Grants allocation

	Grant		17-18	18-19	19-20
Opex	Equitable Share	National	24 023 000	25 909 000	27 321 000
Opex	FMG	National	2 145 000	2 400 000	2 400 000
Opex	MIG	National	518 500	535 150	552 750
Opex	EPWP	National	1 000 000	-	-
Opex	Fin Capacity Building	Provincial	240 000	360 000	480 000
Opex	Human Settlement	Provincial	2 030 000	-	-
Opex	Library (Replacement)	Provincial	1 980 000	2 061 000	2 181 000
Opex	CDW	Provincial	111 000	111 000	111 000
Opex	Thusong	Provincial	212 000	100 000	-
Opex	Fin assistance for road maint	Provincial	50 000	-	-
Capex	INEG	National	8 000 000	13 000 000	18 796 000
Capex	MIG	National	9 851 500	10 167 850	10 502 250
Capex	RBIG	National	7 949 000	30 000 000	50 000 000
Capex	RBIG	National	5 000 000	30 000 000	27 000 000
		List total	63 110 000	114 644 000	139 344 000

SERVICE CHARGES AND MISCELLANEOUS TARIFFS:

The following tariff increases are proposed:

- Electricity : 1.88 % (Await NERSA Approval)
- Water : 8 %
- Rates : 8 %
- Refuse : 8 %
- Sewerage : 8 %
- Other : 8 %

TARIFF CHANGES SUGGESTED FOR 2016/17

Rates Tariffs

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

An increase of 8% in rates income will be raised for 2017/18.

PROPERTY RATES IN TERMS OF THE LOCAL GOVERNMENT: MUNICIPAL PROPERTY RATES ACT, 2004 (Act no. 6 2004), WILL BE LEVIED AS FOLLOWS:

A. **PROPERTY RATES:**

1.1 **PROPERTY TAX ON ALL RESIDENTIAL PROPERTIES DESCRIBED IN SECTION 17(1)(h)(ii) OF ACT NO. 6 OF 2004 ARE AS FOLLOWS:**

The tariff applied to the total valuation: R0,0130983

1.2 **PROPERTY TAX ON ALL BUSINESS / INDUSTRIAL ZONED SITES ARE AS FOLLOWS:**

The tariff applied to the total valuation: R0,00238993

1.3 **PROPERTY TAX ON ALL AGRICULTURE AND PUBLIC SERVICE INFRASTRUCTURE ARE AS FOLLOWS:**

The tariff applied to the total valuation: R 0.0032764

1.4 **PROPERTY TAX ON ALL GUESTHOUSES ARE AS FOLLOWS:**

The tariff applied to the total valuation: R 0,0163697

1.5 **PROPERTY TAX ON ALL SPAZA SHOPS ARE AS FOLLOWS:**

The tariff applied to the total valuation R 0,0137523

1.6 **PROPERTY TAX ON ALL PUBLIC BENEFIT ORGANISATION PROPERTIES ARE AS FOLLOWS:**

The tariff applied to the total valuation R 0.0163697

2. **THE FOLLOWING EXCLUSIONS / EXEMPTIONS / REBATES ON PROPERTY RATES WILL BE GRANTED**:

2.1 **EXCLUSION OF IMPERMISSIBLE RATES**

In terms of Section 17 of the Municipal Property Rates Act, 2004 (Act no. 6 of 2004) a Municipality may not levy a rate

2.1.1 on those parts of a nature reserve, national park or nature reserve within the meaning of the Protected Areas Act;

2.1.2 on the first R15 000.00 of the market value of a property assigned in the valuation or supplementary roll to a category determined by the Municipality:
(i) for improved residential properties;
(ii) for properties used for multiple purposes;

2.1.3 on a property registered in the name of and used primarily as a place of public worship, including an official residence which is occupied by an office-bearer.

2.2 **REBATE IN RESPECT OF ZONING**

2.2.1 Sites zoned for residential purposes and used for residential purposes only and of which the total valuation is R 70 000.00 or less, will automatically be exempt from property rates;

2.2.2 Regarding sites zoned for improved residential purposes and used for improved residential purposes only and of which the valuation is R 70 001.00 or more no exemption as stipulated in 2.2.1 above will apply. Section 2.1.3 will apply in these circumstances where an impermissible exclusion will be awarded on the first R15 000.00 of the valuation of the property.

2.3 **REBATE IN RESPECT OF PENSIONERS**

With regard to paragraph 2.2.2 a 30% additional rebate will be granted to persons at the age of 60 years and older.

For the purposes of 2.3 a ratepayer will be defined as follows: “A registered owner of rateable property who inhabits and controls the property and is responsible for the payment of rates on the property”;

2.4 **REBATE IN RESPECT OF AGRICULTURAL AND PUBLIC SERVICE INFRASTRUCTURE PROPERTIES**

2.4.1 A rebate of 75% on rates (refer to 1.3) will be granted in respect of properties which are zoned and used for agricultural purposes;

2.4.2 A rebate of 75% on rates (refer to 1.3) will be granted in respect of properties which are zoned for public service infrastructure

2.4.3 No rebate on rates will be granted to businesses operating on agricultural properties.

2.4.4 The rebate granted to agricultural properties will be equal to seventy five percent (75%) of the rate payable by other rate payers. The differential rate will be calculated as follows:

(a) a 5% differential due to the fact that the municipality does not provide municipal roads;

(b) a 5% differential due to the fact that the municipality does not provide sewerage services;

(c) a 5% differential due to the fact that the municipality does not provide electricity services;

(d) a 10% differential due to the fact that the municipality does not provide water services;

(e) a 10% differential due to the fact that the municipality does not provide refuse removal services,

(f) a 10% differential due to the fact that the farm owner supplies 1 to 10 houses to farm workers.

(g) a 20 differential due to the fact that the farm owner supplies more than 10 houses to farm workers.

(h) a 10% differential due to the fact that the owner supplies work opportunities for less than 10 permanent workers.

(I) a 20% differential due to the fact that the farm owner supplies work opportunities for more than 10 permanent farm workers.

1.) ONLY ONE OF (F) & (G) CAN BE APPLICABLE

2.) ONLY ONE OF (H) & (I) CAN BE APPLICABLE

2.5 **REBATE FOR PROPERTY TO SOCIAL-ECONOMIC ORGANISATIONS.**

2.5.1 A rebate of 80% on rates will be granted to social-economic organisations based on the tariff applicable in the Kannaland area as outlined in section 1.6 above. But only when a tax certificate is provided.

4. EFFECTIVE DATE AND LAPSING

The above-mentioned property rates will become payable as from 1 July 2017. The above-mentioned property rates are levied for the Municipality's financial year ending on 30 June 2018, whereupon they will lapse and be replaced by new property rates determined by the Municipality's Municipal Council for the Municipality's financial year starting on 1 July 2018 and ending on 30 June 2019.

Table 4 – Comparison of proposed rates to be levied for the 2017/18 financial year

PROPERTY RATES		2016/17	2017/18
General Rate Tariff			
All Residential properties - Per R1 on Total Valuation - Residential	R	0.012128	0.0130983
All Residential properties - Per R1 on Total Valuation - Old Age Homes	R	0.002427	0.0026211
All Residential properties - Per R1 on Total Valuation (Guesthouses)	R	0.015157	0.0163697
All Residential properties - Per R1 on Total Valuation (Spaza Shops) - Residential +5%	R	0.012734	0.0137523
All Residential properties - Per R1 on Total Valuation - Agricultural	R	0.003034	0.0032764
All Business properties - Per R1 on Total Valuation - Businesses	R	0.022129	0.0238993

Water Tariffs

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. The situation is further influenced by the droughts experienced in the surrounding areas. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2024.
During the tariff modelling exercise it was acknowledge that the basic charge for water does not cover the basic cost for the water service and that the structure needs to be changed and remodelled in future budgets.

A tariff increase of 8 % from 1 July 2017 for water is proposed. In addition 6kl water per 30-day period will be granted free of charge to indigent households only. The tariff structure is designed to charge higher levels of consumption at a higher rate per kilolitre. With certain consumers paying an average fixed rate for water, these consumers include:

- Industries
- Large Businesses and B& B's
- Social and Services Institutions
- Old age home and frail care centres
- Churches, schools, hostels and Clubs
- Stand Pipe Consumers

A summary of the proposed tariffs for households (residential) and non-residential in Kannaland are as follows:

Table 5 – Proposed Water Tariffs

CATEGORY	CURRENT TARRIFF (2016/2017)	PROPOSED TARRIFF (2017/2018)
	Rand per kl	Rand per kl
RESIDENTIAL		
(i) 0 to 6 kl per 30 -day period	4.37	4.72
(ii) 7 to 15 kl per 30 -day period	4,99	5.39
(iii) 16 to 20 kl per 30 -day period	7,86	8.49
(iv) 21 to 30 kl per 30 -day period	9.36	10.11
(iv) above 30 kl per 30 -day period	10.98	11.86
NON-RESIDENTIAL		
Industries	9.36	10.11

Large Business and Guesthouses	8.11	8.76
Social and Services Institutions	6.49	7.01
Old Age Home and Frail Care Centres	6.49	7.01
Churches, Schools, Hostels and Clubs	6.49	7.01
Stand pipe consumers	6.49	7.01

The following table shows the impact of the proposed increases in water tariffs on the water charges for a single dwelling-house:

Electricity Tariffs

Application were made to NERSA to increase the current electricity tariffs of Kannaland Municipality by 1.88% which is in line with the guideline issued.

Approval of these tariffs are awaited.

Free 50kWh electricity per month is awarded to households who qualify in terms of municipality's Indigent Policy.

Sanitation tariffs

A tariff increase of 8% for sanitation from 1 July 2017 is proposed.

The following table compares the current and proposed tariffs:

Table 8 – Comparison between current sanitation charges and increases

Description	CURRENT TARIFF 2016/2017 Rand per year	PROPOSED TARIFF 2017/18 Rand per year	DIFFERENCE R	% INCREASE
Residential Unit p/a	1 923.24	2 077.08	153.84	8 %
Residential Old Age Unit p/a	1 396.44	1 508.16	111.72	8 %

Waste Removal tariff

A 8 % increase in the waste removal tariff is proposed from 1 July 2017.

Table 9 – Comparison between current waste fees and increases for a single dwelling-house

Description	CURRENT TARIFF 2016/2017 Rand per year	PROPOSED TARIFF 2017/18 Rand per year	DIFFERENCE R	% INCREASE
Small Businesses	2 475.48	2 673.60	198.12	8 %
Businesses	2 475.48	2 673.6	198.12	8 %
Hotels B&B's and Self Catering	2 498.76	2 698.68	199.92	8 %
Old Age Homes and Frail Care centres	1 999.08	2 159.04	159.96	8 %

Table 10 – Indigent household rebates

Description	2016/17 R	2017/2018 R
Electricity (50 units) – Summer	64.50	Await NERSA APPROVAL
Electricity (50 units) – Winter	76.5	Await NERSA APPROVAL
Water (basic charge)	73.17	79.02
Sanitation (basic charge)	160.27	173.09
Refuse (basic charge)	166.59	179.92

Overall impact of tariff increases on households

The overall expected impact of tariff increases on a large and small households is 6 % , as well as an indigent household receiving free basic services.

It needs to be noted that the majority of indigent households in Kannaland are situated in the affordable house areas. The valuation of these houses is below R120 000 and due to rebates do not pay property rates.

Indigent households receive a discount on their services equal to the basic charge for water plus 6kl water free, 50kwh electricity units, the monthly levy for refuse and sanitation.

1.7 – Operating Expenditure Framework

The expenditure framework for the 2017/18 budget and MTREF is informed by the guidelines of National Treasury.

The operating expenditure has decreased from R 139 232 383 in 2016/17 to R 129 673 000 in 2017/18. The decrease can be attributed to decreases on several expenditure components.

1.8 – Capital Budget

The capital budget decreased from R 54 589 850 (2016/17) to R 30 800 500 in 2017/18.

The Budget Committee went through several stages of prioritising the capital budget to contain the budget within the available funding.

This capital budget has been compiled with due consideration to the direct impact that it would have on the operating budget and our cash position where projects are to be funded solely from internal sources and not external borrowings.

With the current financial constraints that exist on budget it was decided to not obtain external funding for capital projects.

The capital budget reflects the following budget allocation to the various Departments and reflects the strategic priorities outlined in the IDP.

Internal Funding

One of the main challenges impacting on the capital budget is the inadequate contributions to the Capital Replacement Reserve (CRR) for previous years as well as the current budget year. This situation emphasises the need to expand the municipality's current income base through exploring other income sources. The re-affirmed need for revenue enhancement measures in order to broaden the income base is therefore crucial.

No contributions were made to the CRR in the February 2017 Adjustments Budget from the working capital.

Currently the municipality is not providing for any contributions to the CRR. Should the municipality find itself in the position where surpluses exists adjustments can be made later in the year during the adjustment budget process.

Management went through a process of tariff modelling and realised that additional income had to be generated over and above the annual increase in tariffs to fund its asset renewal programme. The master plans for the core services indicate that urgent upgrading and renewal need to be done to the infrastructure.

The increase in human settlements development is putting further strain on the bulk services. The Municipal Infrastructure Grant is not matching this increase in demand.

Although the budgeted income and expenditure are realistically anticipated, the situation regarding the available internal funds will be monitored closely and will be used to re-pay any and all long outstanding debt.

External Funding

Management reconfirmed its commitment not to rely on external funding to fund the capital budget due to the financial constraints that exist. The planned provision made within this budget for external funds for 2017/18 amounts to R 0

Part 2 – Supporting documentation

2.1 - Disclosure on implementation of the MFMA & other applicable legislation

Municipal Finance Management Act – No 56 of 2003

The MFMA became effective on 1st July 2004. The Act aims to modernise budget and financial management practices within the overall objective of maximising the capacity of municipalities to deliver services.

The MFMA covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

The various sections of the Act are phased in according to the designated financial management capacity of municipalities. Kannaland has been designated as a medium capacity municipality. The MFMA is the foundation of the municipal financial management reforms which municipalities are implementing.

The MFMA and the budget

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA.

2.2 – The budget preparation process

2.2.1 – Overview

A central element of the reforms is a change to the way that municipalities prepare their budgets.

The MFMA requires a council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities (as contained in the IDP) and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and particulars on borrowing, investments, municipal entities and service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from realistic estimates of revenue and cash-backed surplus funds from the previous year and borrowings (the latter for capital items only).

2.2.3 – Tabling of the draft budget

The initial draft budget must be tabled by the mayor before council for review by 31 March.

Once tabled at council, the municipal manager must make public the appropriate budget documentation and submit it to both the national and the relevant provincial treasury and any other government departments as required. At this time, the local community must be invited to submit representations on what is contained in the budget.

2.2.4 – Consultation with the community and key stakeholders

When the draft budget is tabled, council must consider the views of the local community, the national and the relevant provincial treasury and other municipalities and government departments that may have made submissions on the budget.

An extensive public participation process should be conducted as part of the IDP and Budget Road shows. The overall objective of this road show is to ensure an authentic and inclusive public participation process for the IDP and budget.

Notices should be placed in the local newspapers, whereby the public is invited to submit written comments by 15 May 2017.

The public participation meetings (Road shows) are scheduled to take place during April 2017, within the respective wards of Kannaland. The planning of the road shows was driven by a steering committee constituted by politicians and officials from all Directorates. This committee provided guidance and feedback on areas that required improvement as the IDP and Budget Road shows unfolded.

2.3 – Overview of budget related policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Section 17 (3) (e) of the Municipal Finance Management Act, (Act No 56 of 2003) prescribes that the Municipality must review the budget related policies annually. Herewith follows suggested changes to Council's budget related policies.

The budget committee considered amendments to various policies and the following budget related policies were reviewed:

1. Customer Care, Credit Control and Debt Collection Policy;
2. Property Rates Policy;
3. Tariff Policy,
4. Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy;
5. Indigent Policy;
6. Virement Policy;
7. Cash Management and Investment Policy;
8. Supply Chain Management Policy;
9. PPPFA Policy;
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The Budget Committee has indicated that the finalization of the draft policy changes will be finalized after the budget consultation process is completed. The draft policies are contained in the budget document and place on municipal website for public comment.

The following financial policies need to be reviewed in future:

- Infrastructure Investment and capital projects including –
    - Planning and Approval of Capital projects Policy on Developer Contributions – this is included in the tariff policy.
- Unforeseen and Unavoidable expenditure
- Policy dealing with Management and Oversight

Budget related policies are attached as Annexures to this document.

2.3.1 – Review of current policies

2.3.1.1 Customer Care, Credit Control and Debt Collection Policy

The policy has been reviewed no material changes have been done.

2.3.1.2 Property Rates Policy

The policy has been reviewed no material changes have been done.

2.3.1.3 Tariff Policy

The policy has been reviewed no material changes have been done.

2.3.1.4 Unauthorized Irregular and Fruitless and Wasteful Expenditure Policy

The policy has been reviewed no material changes have been done.

2.3.1.5 Indigent Policy

The policy has been reviewed no material changes have been done.

2.3.1.6 Virement Policy

The policy has been reviewed no material changes have been done.

2.3.1.7 Cash Management and Investment Policy

The policy has been reviewed no material changes have been made.

2.3.1.8 Supply Chain Management Policy

The policy has been reviewed no material changes have been made.

2.3.1.9 PPPFA Policy

The policy has been reviewed no material changes have been made.

2.3.1.10 Asset Management Policy

The policy has been reviewed no material changes have been made.

2.3.1.11 Funding Borrowing & Reserve Policy

The policy has been reviewed no material changes have been made.

2.3.1.12 Long Term Financial Plan

This is a new plan developed by the municipality.

2.3.1.13 Liquidity Policy

This is a new policy necessary for the Long Term Financial Plan.

2.3.1.14 Budget Implementation and Monitoring Policy

The policy has been reviewed no material changes have been made.

2.3.1.15 Bad debt-write off policy

The policy has been reviewed no material changes have been made.

2.3.1.16 Fleet Management Policy

The policy has been reviewed no material changes have been made.

2.3.1.17 Grants-in-aid Policy

The policy has been reviewed no material changes have been made.

2.3.1.18 Travel and Subsistence Policy

The policy has been reviewed no material changes have been made.

2.3.1.19 Risk Management Policy

The policy has been reviewed no material changes have been made.

2.3.1.20 Capital Contributions for new developments

The policy has been reviewed no material changes have been made.

2.3.1.21 Water losses policy

The policy has been reviewed no material changes have been made.

2.3.1.22 Electricity losses policy

The policy has been reviewed no material changes have been made.

2.3.1.23 Public participation policy

The policy has been reviewed no material changes have been made.

2.4 – Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. This section provides a comprehensive summary of all the assumptions used in preparing the budget.

2.4.1 – National Treasury MFMA Circular No 78, 79 & 85

These Circulars was issued on 7 December 2015, 7 March 2016 and 09 December 2016 respectively, and it provides further guidance to municipalities for the preparation of the 2017/18 budget and MTREF and was used in preparing this budget.

2.4.2 – Inflation Outlook

In MFMA Circular No 85, inflation forecasts are estimated at 6.1 %, 5.9 % and 5.8% respectively for the years 2017 to 2019.

2.4.3 – Rates, tariffs, charges and timing of revenue collection

Management made use of tariff modelling to calculate realistic tariff increases. Although the budget committee endeavoured to contain the increase within the 6% upper boundary of the South African Reserve Bank's inflation target, the model indicated that this was not possible. In order to have a funded budget the following tariff increases are recommended for the 2017/2018 financial year:

	Base Budget 2016/17	**Draft Budget 2017/18**	**Budget 2018/19**	**Budget 2019/20**
Rates		8 %	7 %	7 %
Tariffs:				
Water		8 %	7 %	7 %
Sewerage		8%	7 %	7 %
Electricity		1.88%	7 %	7 %
Cleansing		8 %	7 %	7 %
General Charges		8 %	7 %	7 %

The cash flow statement shows when rates and tariffs are expected to be collected over the financial year. In general terms, the timing of rates, tariffs and charges are based on the following:

Rates	Monthly billing. Interim billing throughout the year.
Tariffs	Monthly billing. On-going prepayment meters. Seasonal fluctuations.
Charges	Generally steady state throughout the financial year with seasonal fluctuations

2.4.4 – Collection rates for each revenue source and customer type

The following bad debt provisions and collection rates are assumed in the MTREF for rates and tariffs.

	2016/17 R	2017/18 R	2018/19 R	2019/20 R
Provision for bad debts and doubtful debts - service debt	14 601 030	14 750 000	15 412 350	15 657 100
Assumed collection rate		96%	96%	96%
Provision for bad and doubtful debts - fines	80%	80%	80%	80%

2.4.5 – Price movements on specifics e.g. bulk purchases

The following amounts are included in the MTREF for increases in bulk purchases;

	2017/18 R	2018/19 R	2019/20 R
ESKOM	32 577 490	35 183 700	37 998 390

2.4.6 – Average salary increases

The MTREF includes the following average percentage increases for wages, salaries and for councillors' remuneration;

Description	2017/2018 R	2018/2019 R	2019/2020 R
Councillors	7 %	7 %	7 %
Section 57 employees	7.4%	7 %	7 %
Salaried employees	7.4 %	7 %	7 %
Casual employees	7.4 %	7 %	7 %

2.4.7 – Industrial relations climate, reorganisation and capacity building

The ability of the Municipality to deliver quality services is virtually entirely dependent on its staff. Failure by the Municipality to invest in its staff to ensure that the capacity and skills exist to meet the challenges being faced by Kannaland will ultimately mean a failure to deliver services. Currently the municipality face financial constraints which do not make it possible for all employees to receive the required training. As result the municipality has developed a training plan to prioritise critical training. The municipality is also facing capacity constraints which cannot be merely rectified through training.

The Municipality has made the following amounts available for training over the MTREF period.

Description	2017/18 R	2018/19 R	2019/20 R
Training budget	60 000-00	60 000-00	60 000-00

2.4.8 – Trends in demand for free or subsidised basic services

Kannaland's criteria for supporting free or subsidised basic services are set out in the Indigent Policy. The Government allocates revenue via the Equitable Share grant with the primary aim of assisting municipalities with the costs of providing free or subsidised basic services. Any costs over and above the Equitable Share allocation must be paid by the consumer.

The proposed allocation to Indigent households will have the following financial consequences:

EQUITABLE SHARE	2017-2018	2018-2019	2019-2020
ELECTRICITY	5 183 510	5 600 500	5 908 240
WATER	3 155 180	3 409 000	3 596 320
REFUSE	4 056 660	4 383 000	4 623 840
SANITATION	4 732 770	5 113 500	5 394 480
COUNCIL - Equit	901 480	974 000	1 027 520
Council - Salary Contr	1 246 000	1 319 000	1 393 000
Wykskommittee Lede	240 000	240 000	240 000
RATES	4 507 400	4 870 000	5 137 600
	24 023 000	**25 909 000**	**27 321 000**

The proposed package of free basic services allocated to the indigents consists of the following:

Description	2016/17 R	2017/18 R
Electricity (50 units) - Summer	64.50	Awaits NERSA approval
Electricity (50 units) - Winter	76.50	Awaits NERSA approval
Water (basic charge)	73.17	79.02
Sanitation (basic charge)	160.27	173.09
Refuse (basic charge)	166.59	179.92

2.5 Municipal Manager's Quality Certificate

I,…PA Williams…., The Acting Municipal Manager of Kannaland Municipality herby certify that the draft budget and supporting documentation for the 2017/2018 Financial Year, have been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act, and that the annual budget and supporting documentation is consistent with the Integrated Development Plan.

Print name	…P A Williams……………………..
Acting Municipal Manager of	**Kannaland Municipality**
Signature	……………………………………………..
Date	……………………………………………..